Our future is Centered around you.

Annual Report 2011

CENTRA CREDIT UNION

President's and Chairman's Report

Loretta M. Burd
President / CEO

Alan Degner
Chairman

Centered around you. That's Centra's promise to you, our members. Since the day we were founded in 1940, we have been focused on our members' financial needs, so that's not new. We have always been committed to providing outstanding financial services that make a difference for our members. In fact, our members helped determine what the brand promise should be by describing the personality and character of Centra for us. Members described Centra as welcoming, helpful, caring, reliable, and trustworthy – much like a trusted friend. What is new is that our brand promise now helps us communicate those characteristics that have always been true of Centra, in a more vibrant and relevant way.
You can see our "Centered Around You" philosophy in new developments from throughout 2011:

- Our new Website design features improved navigation and additional benefits such as "Instant Answers" for quick answers to the most-asked questions, product comparison charts to make it easy to select the savings or checking account that best fits your lifestyle, and easier pathways to the information you need most.
- Your account access through CentraPhone bank-by-phone was improved with a newly designed calling menu.
- Bright colors, fresh graphics and better access to the services you're looking for are the hallmarks of the National Road and Union Street lobby remodeling projects. In-branch communication and merchandising was also improved not only at these locations, but in all of our branches.
- You now can conduct Account to Account Transfers, use Bill Payer for same-day online bill payment, and purchase gift cards that are reloadable time and again for your convenience.
- Your Centra Visa credit card can now be personalized with your favorite photo, and you can receive electronic alerts about your account.
- Two teachers from Centra's communities were awarded with Financial Literacy Educator Awards. In addition to the $3,000 in college scholarships that Centra provides to students, we wanted to reward teachers for their efforts to make sure students are prepared to be smart money managers.
- Our communities were positively impacted through Centra's partnerships with numerous charitable organizations.

Our financial highlights also show that more members used Centra's services and benefited from the value Centra provides:

- Loan growth of 10.7%, allowing more members to borrow at low rates
- Deposit growth of 9.3%, providing above-market savings rates for members
- Asset growth of 9.3%, to $985.9 million
- Strong capital at 11.0%, well above the 7.0% required by federal regulators
- Solid Return on Assets of .80%
- More than 507 new first mortgage loans closed for more than $58.8 million in member home purchases and refinancing
- Auto loan growth of 26.2%
- Credit Card portfolio growth of 12.4% due to our outstanding credit card program
- Another year of 5-Star Bauer Financial, Inc. ratings, their highest honor, and the distinction of being an "Exceptional Performance Credit Union" for having earned the highest marks for 10 years or longer

We believe the changes and improvements you've seen throughout 2011 are just the beginning of the commitment we're making to deepen relationships with our members. Our growth and financial success continues as well. 2012 has already seen the breakthrough of the $1 Billion Dollar milestone in total assets, making Centra the third largest credit union in Indiana and one of the largest locally owned and operated financial institutions in central and southern Indiana.

Being "Centered Around You" means we're focused on the difference you can experience by being a Centra member. It's about the relationships we have with our members, the ways you can benefit through saving money, being better informed, and having more options, and about the fact that members are the reason for everything we do. It is our privilege to help you reach your financial goals.

Loretta M. Burd
President/CEO

Alan Degner
Chairman

Board of Directors

Alan Degner
Chairman

Thomas P. Kieffer
Vice Chairman

James R. Johnson
Secretary

Brian McBroom
Treasurer

Dan Arnholt

Amber Fischvogt

Loretta M. Burd

Supervisory Committee

Shirley A. Kreutzjans
Chairman

Stephen Stringer

David Shinkle

Senior Management

Loretta M. Burd
President/CEO

Doug Harris
Chief Financial Officer

Patty Knorr
Chief Operations Officer

Brad Davis
Chief Credit Officer

Christopher Bottorff
Southern Indiana
Regional President

Treasurer's Report

Being centered around our members means not only providing the services members need and want, but also ensuring that Centra maintains strong financial performance so we can continue to have resources to expand our services and make a difference for our members for years to come.

2011 was a very successful year for Centra, demonstrating solid growth despite a very slowly recovering economy. Loan growth for the year was outstanding at 10.7% overall, or a $52.5 million increase. Auto loans, in particular, showed the highest rate of increase at 26.2%, ending the year at $179.5 million. Also showing substantial increases were our credit card portfolio with 12.4% growth and first mortgages at 6.4% growth.

Deposits grew by 9.3%, from $763.0 million to $834.2 million. Total Assets rose by 9.3% as well, ending the year at $985.9 million, compared with $902.3 million in 2010. Centra's capital ratio was 11.0%, an excellent indicator of our strength and stability. This compares with 7.0% capital that is required by federal regulators to qualify as a well-capitalized institution.

Centra also earned a strong Return on Average Assets After Taxes of .80%, with net income of $7.6 million at year-end.

By maintaining our financial strength and stability, Centra is well-positioned to continue to help members reach their financial goals.

Brian K. McBroom
Treasurer

	12/31/2011	12/31/2010	Net Gain	% Increase
Total Assets	$985.9 million	$902.3 million	$83.6 million	9.3%
Total Deposits	$834.2 million	$763.0 million	$71.2 million	9.3%
Total Loans	$544.7 million	$492.2 million	$52.5 million	10.7%
Auto Loans	$179.5 million	$142.2 million	$37.3 million	26.2%
Credit Cards	$24.4 million	$21.7 million	$2.7 million	12.4%
First Mortgage Loans	$181.6 million	$170.6 million	$11.0 million	6.4%

Independent Accountant's Report

To the Supervisory Committee and
Board of Directors
Centra Credit Union
Columbus, Indiana

We have audited the accompanying consolidated balance sheets of Centra Credit Union (Credit Union) as of December 31, 2011 and 2010, and the related consolidated statements of income, equity capital and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centra Credit Union as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 5, 2012

Consolidated Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Cash and due from banks	$ 8,266,927	$ 11,660,450
Interest-bearing demand deposits	125,024,702	131,686,973
Cash and cash equivalents	133,291,629	143,347,423
Interest-bearing time deposits	6,945,991	17,606,044
Investment securities		
Available-for-sale	193,722,031	150,223,132
Held-to-maturity (fair value of $68,153,000 and $61,138,000 at December 31, 2011 and 2010)	66,923,992	59,829,719
Total investment securities	260,646,023	210,052,851
Loans held for sale	1,829,550	233,500
Loans, net of allowance for loan losses of $7,203,000 and $7,068,000 at December 31, 2011 and 2010	544,674,145	492,248,624
Premises and equipment	14,891,399	14,289,774
Federal Home Loan Bank stock	2,281,100	2,379,100
National Credit Union Share Insurance Fund deposit	7,830,058	7,294,269
Other assets	13,548,843	14,860,822
Total assets	$ 985,938,738	$ 902,312,407

Liabilities

Members' deposits	$ 834,221,506	$ 763,003,670
FHLB advances	37,000,000	34,000,000
Other liabilities	3,132,269	1,837,294
Total liabilities	874,353,775	798,840,964

Equity Capital

Retained earnings	108,811,972	101,212,716
Accumulated other comprehensive income	2,772,991	2,258,727
Total equity capital	111,584,963	103,471,443
Total liabilities and equity capital	$ 985,938,738	$ 902,312,407

Consolidated Statements of Income
Years Ended December 31, 2011 and 2010

	2011	2010
Interest Income		
Loans receivable	$ 27,528,913	$ 28,542,600
Investment securities	5,150,524	6,787,853
Interest-bearing deposits	308,929	254,343
	32,988,366	35,584,796
Interest Expense		
Deposits	9,416,163	10,891,337
FHLB advances	1,542,226	1,591,118
	10,958,389	12,482,455
Net Interest Income	22,029,977	23,102,341
Provision for loan losses	3,725,000	6,075,000
Net Interest Income After Provision for Loan Losses	18,304,977	17,027,341
Other Income		
Service charges on deposit accounts and other member fees	11,057,986	8,961,483
Insurance commissions	722,596	506,419
Interchange income	4,921,788	4,434,546
Gain on loan sales	440,376	1,075,746
Other income	324,067	675,979
	17,466,813	15,654,173
Other Expenses		
Salaries and employee benefits	10,582,552	9,654,371
Office occupancy expense	2,334,062	2,238,403
Office operations expense	3,928,352	3,905,274
Advertising and promotion expense	1,100,624	724,371
Loan servicing expense	1,800,399	1,732,899
Third-party service expense	3,973,304	3,095,221
NCUSIF share insurance expense	1,957,515	1,889,380
Loss on other assets	766,645	563,510
Other expenses	1,729,081	1,391,578
	28,172,534	25,195,007
Net Income	$ 7,599,256	$ 7,486,507

Consolidated Statements of Equity Capital
Years Ended December 31, 2011 and 2010

	Comprehensive Income	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2010		$ 24,285,093	$ 69,441,116	$ 2,886,203	$ 96,612,412
Comprehensive income					
Net income	$ 7,486,507		7,486,507		7,486,507
Other comprehensive income					
Change in unrealized lisses on securities	(627,476)			(627,476)	(627,476)
Comprehensive income	$ 6,859,031				
Regulatory transfers, net		5,016,323	(5,016,323)		-
Balances, December 31, 2010		29,301,416	71,911,300	2,258,727	103,471,443
Comprehensive income					
Net income	$ 7,599,256		7,599,256		7,599,256
Other comprehensive income					
Change in unrealized gains on securities	514,264			514,264	514,264
Comprehensive income	$ 8,113,520				
Regulatory transfers, net		5,001,481	(5,001,481)		-
Balances, December 31, 2011		$ 34,302,897	$ 74,509,075	$ 2,772,991	$ 111,584,963

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net income	$ 7,599,256	$ 7,486,507
Items not requiring (providing) cash		
Provision for loan losses	3,725,000	6,075,000
Depreciation	1,156,386	1,159,301
Amortization of deferred loan fees and costs	1,840,629	1,299,488
Premium amortization (discount accretion) on investment securities, net	2,682,144	1,813,748
Gains on sales of loans	(440,376)	(1,075,746)
Loss on other assets	766,645	563,510
Change in		
Loans held for sale	(1,596,050)	840,000
Other assets	(1,911,648)	(4,019,255)
Other liabilities	1,294,975	293,746
Net cash provided by operating activities	15,116,961	14,436,299
Investing Activities		
Net change in interest-bearing time deposits	10,660,053	15,589,788
Purchases of securities available for sale	(140,009,755)	(116,882,834)
Proceeds from maturities, calls and paydowns of securities available for sale	95,217,164	110,081,235
Purchases of securities held to maturity	(24,036,716)	(31,381,623)
Proceeds from maturities, calls and paydowns of securities held to maturity	16,068,255	16,292,785
Net change in loans	(55,093,792)	(8,743,567)
Purchases of premises and equipment	(1,758,011)	(1,420,353)
Proceeds from FHLB stock redemption	98,000	68,500
Net change in National Credit Union Share Insurance fund deposit	(535,789)	(302,699)
Net cash used in investing activities	(99,390,591)	(16,698,768)
Financing Activities		
Net change in		
Share checking, money market shares and regular shares	76,144,534	50,429,251
Certificates	(4,926,698)	(14,471,429)
Proceeds from FHLB advances	3,000,000	-
Paydown of FHLB advances	-	(2,000,000)
Net cash provided by financing activities	74,217,836	33,957,822
Net Change in Cash and Cash Equivalents	(10,055,794)	31,695,353
Cash and Cash Equivalents, Beginning of Year	143,347,423	111,652,070
Cash and Cash Equivalents, End of Year	$ 133,291,629	$ 143,347,423
Additional Cash Flows Information		
Interest paid	$ 10,962,145	$ 12,486,599
Transfer of loans to other real estate owned	2,456,982	1,986,528

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Centra Credit Union (Credit Union) and its wholly owned subsidiary, Centra Financial Services, LLC (CFS), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the credit union industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Credit Union is headquartered in Columbus, Indiana, and branches are located throughout central and southern Indiana; Jamestown, New York; and Whitakers, North Carolina. As a state-chartered, federally insured credit union, the Credit Union is subject to the regulation of the Indiana Department of Financial Institutions, National Credit Union Administration and the National Credit Union Share Insurance Fund. The Credit Union grants consumer loans including credit card, lease-like loans and open-end credit, mortgage loans and business loans to its members. The Credit Union's membership criteria is designed to include a well-diversified membership base. The majority of its loans are secured by collateral including members' shares, real property and other consumer assets. CFS provides insurance and brokerage services to Credit Union members and others.

Consolidation - The consolidated financial statements include the accounts of the Credit Union and CFS after elimination of all material intercompany transactions.

Cash and Cash Equivalents - The Credit Union considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents at December 31, 2011 and 2010 consist of overnight deposits.

Through December 31, 2012, all noninterest-bearing transaction accounts at all FDIC-insured institutions are fully guaranteed by the FDIC for the entire amount in the account. Under the NCUA's Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), the entire amounts in those accounts are fully guaranteed through December 31, 2012.

The Credit Union has approximately $1,108,000 on deposit with the Federal Home Loan Bank - Indianapolis, which are not FDIC-insured. In addition, the Credit Union has approximately $110,034,000 on deposit with the Federal Reserve. While the Federal Reserve is not FDIC-insured, these deposits are implicitly guaranteed by the United States Government.

Investment Securities - Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

For debt securities with fair value below amortized cost when the Credit Union does not intend to sell a debt security, and it is more likely than not the Credit Union will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Credit Union’s policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Credit Union promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Credit Union charges off residential and consumer loans, or portions thereof, when the Credit Union reasonably determines the amount of the loss. The Credit Union adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 90 days past due, charge-off of unsecured open-end loans when the loan is 90 days past due, and charge-down to the net realizable value when other secured loans are 90 days past due. Loans at these respective delinquency thresholds for which the Credit Union can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Credit Union requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Credit Union records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union over the prior three years. Management believes the three year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for nonhomogenous type loans such as commercial, nonowner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Credit Union utilizes the discounted cash flows to determine the level of impairment, the Credit Union includes the entire change in the present value of cash flows as bad debt expense.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Credit Union acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old, and a new appraisal is not performed due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted based on the age of the appraisal, condition of the subject property and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is considered in the determination of the allowance for loan losses through analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Credit Union.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status, and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Credit Union do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Credit Union may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Credit Union's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Credit Union reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, trouble debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Required Investments - Federal Home Loan Bank stock and membership shares in corporate credit unions are required investments for credit unions that are members of those institutions. The required investment in each institution is based on a predetermined formula.

National Credit Union Share Insurance Fund deposit is required in an amount equal to one percent of the Credit Union's total insured shares. This noninterest-earning deposit is intended to provide insurance coverage on savings deposits.

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized appreciation on available-for-sale securities.

Retained earnings includes a regular reserve, which is a regulatory restriction of retained earnings and is not available for the payment of interest.

Current economic environment continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

Due to national, state, and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed. The accompanying consolidated financial statements have been prepared using values and information currently available to the Credit Union.

The Credit Union's consolidated financial statements have been prepared using values and information currently available to the Credit Union.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Credit Union's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action. As noted in Note 14, the Credit Union is currently classified as "well-capitalized."

Note 2: Restriction on Cash and Due From Banks

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2011 was $25,000.

Note 3: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of investment securities is as follows:

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Federal agencies	$ 77,968	$ 519	$ (24)	$ 78,463
Small business administration (SBA) securities	10,095	87	-	10,182
NCUA guaranteed notes	11,972	-	(261)	11,711
Mortgage-backed securities - government-sponsored enterprises (GSE) residential	90,914	2,461	(9)	93,366
Total available for sale	190,949	3,067	(294)	193,722
Held-to-maturity				
Mortgage-backed securities - GSE residential	66,924	1,263	(34)	68,153
Total investment securities	$ 257,873	$ 4,330	$ (328)	$ 261,875

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Federal agencies	$ 67,255	$ 334	$ (127)	$ 67,462
Mortgage-backed securities - GSE residential	80,709	2,214	(162)	82,761
Total available for sale	147,964	2,548	(289)	150,223
Held-to-maturity				
Mortgage-backed securities - GSE residential	59,830	1,508	(200)	61,138
Total investment securities	$ 207,794	$ 4,056	$ (489)	$ 211,361

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2011, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 37,212	$ 37,304	$ -	$ -
One to five years	57,986	58,229	-	-
Five to ten years	4,837	4,823	-	-
	100,035	100,356	-	-
Mortgage-backed securities - GSE residential	90,914	93,366	66,924	68,153
Totals	$ 190,949	$ 193,722	$ 66,924	$ 68,153

Certain investments in debt securities have a fair value at an amount less than their historical cost. Total fair value of these investments at December 31, 2011 and 2010 was $36,778,000 and $44,891,000, which is approximately 14.1% and 21.4% of the Credit Union's available-for-sale and held-to-maturity investment portfolio. Unrealized losses within the investment portfolio are temporary, as they are a result of market changes rather than a reflection on credit quality.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income or other comprehensive income in the period the other-than-temporary impairment is identified.

The following tables show the Credit Union's investments' gross unrealized losses and fair value of the Credit Union's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010:

	2011					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
Federal agencies	$ 10,000	$ (24)	$ -	$ -	$ 10,000	$ (24)
NCUA guaranteed notes	11,712	(261)	-	-	11,712	(261)
Mortgage-backed securities - GSE residential	5,077	(9)	-	-	5,077	(9)
Total temporarily impaired securities	$ 26,789	$ (294)	$ -	$ -	$ 26,789	$ (294)

	2011					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity securities:						
Mortgage-backed securities - GSE residential	$ 9,989	$ (34)	$ -	$ -	$ 9,989	$ (34)

Description of Securities	2010 Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available-for-sale securities:						
Federal agencies	$ 15,435	$ (127)	$ -	$ -	$ 15,435	$ (127)
Mortgage-backed securities - GSE residential	14,180	(162)	-	-	14,180	(162)
Total temporarily impaired securities	$ 29,615	$ (289)	$ -	$ -	$ 29,615	$ (289)

Description of Securities	2010 Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Held-to-maturity securities:						
Mortgage-backed securities - GSE residential	$ 15,276	$ (200)	$ -	$ -	$ 15,276	$ (200)

Federal Agencies

The unrealized losses on the Credit Union's investments in direct obligations of U.S. Government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

National Credit Union Administration Guaranteed Notes

The unrealized losses on the Credit Union's investment in National Credit Union Administration (NCUA) notes were caused by interest rate changes. The Credit Union expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Mortgage-Backed Securities - GSE Residential

The unrealized losses on the Credit Union's investment in residential mortgage-backed securities were caused by interest rate changes. The Credit Union expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Note 4: Loans and Allowance for Loan Losses

Loans at year end are comprised of the following:

	2011	2010
Loans		
Commercial	$ 75,283	$ 76,922
Secured by automobiles	179,528	142,176
First mortgage	181,580	170,551
Home equity	60,316	59,016
Other consumer	52,115	48,778
	548,822	497,443
Deferred loan costs, net	3,055	1,874
Allowance for loan losses	(7,203)	(7,068)
	$ 544,674	$ 492,249

The following presents, by portfolio class, the activity in the allowance for loan losses for the year ended December 31, 2011:

	Commercial	Automobile	First Mortgage	Home Equity	Other Consumer	Total
Beginning Balance	$ 2,955	$ 2,047	$ 418	$ 389	$ 1,259	$ 7,068
Provision	1,859	937	611	104	214	3,725
Loans charged off	(1,359)	(1,501)	(451)	(243)	(507)	(4,061)
Recoveries	-	378	-	16	77	471
Ending Balance	$ 3,455	$ 1,861	$ 578	$ 266	$ 1,043	$ 7,203

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio classes and impairment method as of December 31, 2011:

	Commercial	Automobile	First Mortgage	Home Equity	Other Consumer	Total
Allowance Balances:						
Individually evaluated for impairment	$ 2,421	$ -	$ 64	$ -	$ -	$ 2,485
Collectively evaluated for impairment	1,034	1,861	514	266	1,043	4,718
Total allowance for loan losses	$ 3,455	$ 1,861	$ 578	$ 266	$ 1,043	$ 7,203
Loan Balances:						
Individually evaluated for impairment	$ 8,796	$ 18	$ 256	$ -	$ 5	$ 9,075
Collectively evaluated for impairment	66,487	179,510	181,324	60,316	52,110	539,747
Total loan balances	$ 75,283	$ 179,528	$ 181,580	$ 60,316	$ 52,115	$ 548,822

The risk characteristics of each loan portfolio class are as follows:

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee.

Automobile loans are typically secured by the underlying automobile or recreational vehicle. First mortgage loans are typically secured by 1-4 family residences and are generally owner occupied. The Credit Union generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity and other consumer loans are typically secured by subordinate interests in 1-4 family residences and other personal assets. Some personal loans are unsecured and repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels, property values, etc.

Commercial loans are rated by credit quality using the following designations:

Risk Rating - 1 Excellent

These loans include:

1. Loans secured by highly liquid collateral (cash or cash equivalent) with sufficient margin to assure payment in full, including interest, at maturity
2. Unsecured loans to high net worth individuals with supporting assets that are highly liquid
3. Loans adequately secured by marketable collateral within established margin requirements
4. Loans to very strong middle market, or local borrowers that have a history of profitability, liquidity, and leverage ratios that are above industry averages. Probability of serious financial deterioration is unlikely
5. Unsecured loans directly to or guaranteed by, high net worth individuals who have appropriate, liquid supporting assets. These loans have a strong reliable source of repayment. Borrower's business is in a strong industry and has an experienced, stable management team. Portions of loans may be secured by government guarantees, Farm Service Agency (FSA) or Small Business Administration (SBA), with correct documentation in compliance with guarantee

Risk Rating - 2 Good

These loans are to middle market or local borrowers with average financial strength, but who have some minor deficiencies or vulnerability to changing economic or industry conditions. The borrower has adequate capital and fair profitability, liquidity and leverage ratios. Loans in this category may also be secured by collateral that lacks adequate margin or liquidity. Unsecured loans may also be directly to, or guaranteed by, identified sources of repayment. Management is experienced, relatively stable and has demonstrated the ability to manage the company.

Risk Rating - 3 Satisfactory

These loans are to borrowers of slightly below average or somewhat mediocre financial conditions, with some noted weaknesses. It is not anticipated that the borrower's financial condition will deteriorate over the term of the loan. Noted weaknesses are overcome by strength in other areas. These loans have adequate sources of repayment.

Risk Rating - 4 Special Mention (Watch Credit)

These loans may be fundamentally sound to borrowers who have trends or characteristics that render them particularly vulnerable to economic adversity (competition, market conditions or potential product obsolescence) or have a continued lack of proper credit administration by the loan officer (i.e. critical documentation exceptions or monitoring cash flow with financial data). These credits require more frequent monitoring in order to periodically assess their condition as a result of increased vulnerability.

Other characteristics could include:

1. A significant change in trends (ratios, earnings, borrowings, etc.) that may include adverse concerns
2. Out of the ordinary repayment programs
3. Deficient collateralization
4. Questionable management
5. An expected or actual significant change that may have a negative impact on the company
6. Frequent change in accounting/CPA firms or management has recently changed and their capabilities are unknown
7. As the Watch Credit classification is generally a transitory grade from/to satisfactory and substandard, credits will generally not remain as a Watch Credit for more than 1 – 2 years

Risk Rating - 5 (Substandard)

These loans are considered inadequately protected by the current worth and repayment capacity of the borrower, or the value of collateral, if any. Such loans have well-defined weaknesses that could jeopardize liquidation of the loan. If such weaknesses are not corrected, it is likely that the lender will incur a loss. Examples of weaknesses inherent in such loans include:

1. The borrower's financial condition has deteriorated to the point that ultimate repayment of the loan may be in doubt. For example, cash is positive but inadequate to service the debt if liquidated.
2. There are cash flow deficiencies, which may jeopardize an orderly repayment of the loan, as specified in the note or loan agreement; this may also indicate an impaired loan classification.
3. The borrower is in bankruptcy or, for any other reason, repayment is dependent on court action.
4. The credit relationship has deteriorated to the point that the sale of collateral is the primary source of repayment, unless this was the original source of repayment when the loan was originated.

Risk Rating - 6 (Doubtful)

These loans exhibit weaknesses similar to substandard loan and require immediate action. The severity of such weaknesses makes collection or repayment in full highly questionable or improbable, based on existing facts, conditions and values. The probability of loss is high, but the ultimate loss exposure cannot be completely determined due to pending factors that may affect the loan. Such pending factors could include merger/liquidation, additional capital injection, perfection of liens on additional collateral and refinancing plans. These loans are generally on nonaccrual.

Risk Rating - 7 (Loss)

These loans are considered uncollectible, have little or no value and are on a nonaccrual basis. This rating does not mean that the loan has no recovery or salvage value. The loan can continue as long as recovery is regularly occurring. Once recovery ceases, the loan should be charged off.

Automobile, first mortgage, home equity and other consumer loans are not rated on the above-listed risk categories, but are classified by their payment activity, either as performing, delinquent less than 90 days or nonperforming.

The following table presents the credit risk profile of the Credit Union's loan portfolio based on internal rating category and payment activity as of December 31, 2011:

	Commercial
Grade:	
Pass (1-3)	$ 53,174
Special mention (4)	14,641
Substandard (5)	5,884
Doubtful (6)	1,584
Loss (7)	-
	$ 75,283

	Automobile	First Mortgage	Home Equity	Other Consumer	Total
Performing	$ 175,066	$ 177,163	$ 58,864	$ 50,515	$ 461,608
Delinquent less than 90 days	4,066	3,048	1,339	1,268	9,721
Nonperforming	396	1,369	113	332	2,210
	$ 179,528	$ 181,580	$ 60,316	$ 52,115	$ 473,539
Total loans					$ 548,822

The following table presents the Credit Union's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 426	$ 170	$ 2,620	$ 3,216	$ 72,067	$ 75,283	$ -
Automobile	3,924	142	396	4,462	175,066	179,528	-
First mortgage	2,878	170	1,369	4,417	177,163	181,580	-
Home equity	1,304	35	113	1,452	58,864	60,316	-
Other consumer	1,233	35	332	1,600	50,515	52,115	-
Total loans	$ 9,765	$ 552	$ 4,830	$ 15,147	$ 533,675	$ 548,822	$ -

The following table presents impaired loans for the year ended December 31, 2011:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ 623	$ 623	$ -	$ 1,455	$ 26
Automobile	18	18	-	16	2
First mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Other consumer	5	5	-	13	2
Total impaired loans with no related specific reserve	$ 646	$ 646	$ -	$ 1,484	$ 30
Impaired loans with a specific valuation allowance:					
Commercial	$ 8,173	$ 8,173	$ 2,421	$ 6,881	$ 430
Automobile	-	-	-	-	-
First mortgage	256	256	64	205	-
Home equity	-	-	-	-	-
Other consumer	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 8,429	$ 8,429	$ 2,485	$ 7,086	$ 430
Total impaired loans	$ 9,075	$ 9,075	$ 2,485	$ 8,570	$ 460

The following table presents the Credit Union's nonaccrual loans at December 31, 2011. This table excludes purchased impaired loans and performing troubled debt restructurings.

Commercial	$ 2,620
Automobile	396
First mortgage	1,369
Home equity	113
Other consumer	332
Total nonaccrual loans	$ 4,830

As a result of adopting the amendments in Accounting Standards Update No. 2011-02 (ASU), the Credit Union reassessed all restructurings that occurred on or after the beginning of its current fiscal year January 1, 2011 for identification as troubled debt restructurings. The Credit Union identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, the Credit Union identified them as impaired under the guidance in Accounting Standards Codification (ASC) 310-10-35. The ASU requires prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired.

At December 31, 2011, the Credit Union had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents information regarding troubled debt restructurings by class for the year ended December 31, 2011.

Newly classified troubled debt restructurings:

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial	6	$ 412	$ 401
Automobile	44	537	403
First mortgage	3	306	309
Home equity	1	5	5
Other consumer	4	59	58
	58	$ 1,319	$ 1,176

Troubled debt restructurings that subsequently defaulted:

	Number of Loans	Recorded Balance
Commercial	1	$ 6
Automobile	14	110
First mortgage	3	287
Home equity	-	-
Other consumer	1	5
	19	$ 408

The following tables present the allowance for loan loss activity, impaired loans and nonaccrual loans for 2010.

Activity in the allowance for loan losses was as follows:

	2010
Balance, beginning of year	$ 6,605
Provision charged to expense	6,075
Charge-offs	(6,077)
Recoveries	465
Balance, end of year	$ 7,068

Impaired loans were as follows:

	2010
Loans with no allocated allowance for loan losses	$ 1,237
Loans with allocated allowance for loan losses	3,356
Balance, end of year	$ 4,593

	2010
Amount of the allowance for loan losses allocated	$ 755
Average of impaired loans during the year	6,375
Interest income recognized during the impairment	198
Cash-basis interest income recognized	198

Nonperforming loans were as follows:

	2010
Nonaccrual loans	$ 4,878

At December 31, 2010, there were no accruing loans delinquent 90 days or more.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2011	2010
Cost		
Land	$ 3,549	$ 3,549
Building and improvements	15,693	14,686
Equipment	12,602	12,082
Construction in progress	536	308
Total cost	32,380	30,625
Accumulated depreciation	(17,489)	(16,335)
Net	$ 14,891	$ 14,290

Note 6: Members' Deposits

	2011	2010
Savings deposits		
Regular shares	$ 263,035	$ 232,239
Share checking	102,924	91,271
Money market shares	130,670	96,974
Share certificates	258,338	268,113
IRA certificates	79,255	74,407
Total deposits	$ 834,222	$ 763,004

At December 31, 2011, scheduled maturities of certificates are as follows:

2012	$	173,738
2013		50,254
2014		57,441
2015		16,445
2016		39,715
Total certificates	$	337,593

The aggregate amount of share certificates with a minimum denomination of $100,000 was approximately $102,189,000 and $100,618,000 at December 31, 2011 and 2010, respectively.

Note 7: FHLB Advances

Advances outstanding from the Federal Home Loan Bank totaled $37,000,000 and $34,000,000 at December 31, 2011 and 2010, respectively. Interest rates range from 3.17 percent to 4.62 percent at December 31, 2011. Interest is payable monthly. The advances are collateralized by approximately $160,003,000 of mortgage loans as of December 31, 2011, under a specific collateral agreement.

The advances are subject to prepayment penalties and provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2011:

2012	$	-
2013		-
2014		-
2015		8,000
2016		5,000
Thereafter		24,000
Total advances	$	37,000

Note 8: Line of Credit

The Credit Union has available a $25,780,000 open-ended line of credit from Alloya Corporate Federal Credit Union (formerly Members United Bridge Corporate FCU). Borrowings under this line, if used, would be secured by substantially all assets of the Credit Union, including mortgage loans. At December 31, 2011 and 2010, no indebtedness was outstanding under this line of credit. The line matures on December 1, 2012.

Note 9: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others totaled approximately $124,127,000 and $121,799,000 at December 31, 2011 and 2010, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at December 31, 2011 and 2010 was immaterial to the consolidated financial statements taken as a whole.

Note 10: Taxes

The Credit Union and subsidiary are subject to a franchise tax imposed by the State of Indiana on net income after regulatory reserve transfers and certain other adjustments. The Credit Union and subsidiary incurred current franchise tax of $186,000 for 2011 and $230,000 for 2010. Federal income taxes are not provided for the Credit Union in the consolidated financial statements since the Credit Union is exempt. The subsidiary is subject to federal income tax, which is immaterial to the consolidated financial statements. With few exceptions, the Credit Union is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2008.

Note 11: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the Credit Union consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk were as follows:

	2011	2010
Commitments to extend credit		
Mortgage loans	$ 45,166	$ 45,281
Consumer loans	77,541	65,982
Commercial loans	1,926	2,060

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include consumer goods and real estate.

The Credit Union is also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Credit Union.

Note 12: Employee Benefit Plans

The Credit Union has a retirement savings 401(k) plan in which substantially all employees may participate. The Credit Union matches employees' contributions up to three percent and may make a discretionary contribution. The Credit Union's expense for the plan was approximately $130,000 and $105,000 for 2011 and 2010.

Note 13: Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Credit Union does not have any Level 1 securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include federal agencies, SBA securities, NCUA guaranteed notes and mortgage-backed securities. The Credit Union does not have any Level 3 securities.

The following tables present the fair value measurements of assets and liabilities recognized in the consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

	2011			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agencies	$ 78,463	$ -	$ 78,463	$ -
SBA securities	10,182	-	10,182	-
NCUA guaranteed notes	11,711	-	11,711	-
Mortgage-backed securities - GSE residential	93,366	-	93,366	-
	$ 193,722	$ -	$ 193,722	$ -

		2010 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agencies	$ 67,462	$ -	$ 67,462	$ -
Mortgage-backed securities - GSE residential	82,761	-	82,761	-
	$ 150,223	$ -	$ 150,223	$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Credit Union will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Impaired loans are classified within Level 3 of the fair value hierarchy.

Other Real Estate Owned

The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis.

Other real estate owned is classified within Level 3 of the fair value hierarchy.

		2011 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 6,173	$ -	$ -	$ 6,173
Other real estate owned	1,450	-	-	1,450

		2010 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,601	$ -	$ -	$ 2,601

ASC 825-10, *Financial Instruments*, requires that the Credit Union disclose estimated fair values for its financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents - The fair value of cash and cash equivalents approximates carrying value.

Interest-bearing time deposits - The fair value of interest-bearing time deposits is estimated using discounted cash flow analysis, using interest rates currently being offered for time deposits with similar terms.

Securities held-to-maturity - The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

Loans held for sale -The fair value of loans held for sale approximates carrying value.

Loans - The fair value of loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to members of similar credit quality.

FHLB stock - Fair value of FHLB stock is based on the price at which it may be resold to the FHLB.

NCUSIF deposit - The fair value of NCUSIF deposit approximates carrying value.

Members' deposits - The fair value of share checking, regular shares, club accounts and money market shares is the amount payable on demand at the balance sheet date. The fair value of fixed maturity certificates is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected maturities on such time deposits.

FHLB advances - The fair value of FHLB advances is estimated using a discounted cash flow valuation that applies interest rates currently being offered on similar advances to a schedule of aggregated expected maturities of similar advances.

Off-Balance Sheet commitments - Commitments include commitments to purchase and originate mortgage loans, commitments to sell mortgage loans and standby letters of credit and are generally of a short-term nature. The fair value of such commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Credit Union's financial instruments at December 31 are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 133,292	$ 133,292	$ 143,347	$ 143,347
Interest-bearing time deposits	6,946	6,980	17,606	17,768
Securities available-for-sale	193,722	193,722	150,223	150,223
Securities held-to-maturity	66,924	68,153	59,830	61,138
Loans held for sale	1,830	1,830	234	234
Loans, net	544,674	564,713	492,249	507,430
FHLB stock	2,281	2,281	2,379	2,379
NCUSIF deposit	7,830	7,830	7,294	7,294
Liabilities				
Members' deposits	834,222	842,827	763,004	769,483
FHLB advances	37,000	41,574	34,000	36,032

Note 14: Regulatory Capital

The Credit Union is subject to regulatory net worth ratio requirements administered by the NCUA. In addition, the NCUA has also established Risk-Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities and off-balance sheet items which qualify under the regulations. Failure to meet minimum net worth or RBNW requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2011, that the Credit Union meets all capital adequacy requirements to which it is subject, and no events have occurred since that date that would change the Credit Union's classification. The Credit Union's RBNW ratio is below the 6% minimum requirement to be considered a complex credit union. As of December 31, 2011 and 2010, the Credit Union's RBNW was 4.72% and 5.09%, respectively.

As of December 31, 2011 and 2010, the Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%.

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011	$ 108,812	11.03%	$ 59,189	6.00%	$ 69,054	7.00%
December 31, 2010	$ 101,213	11.22%	$ 54,139	6.00%	$ 63,162	7.00%

Note 15: Subsequent Events

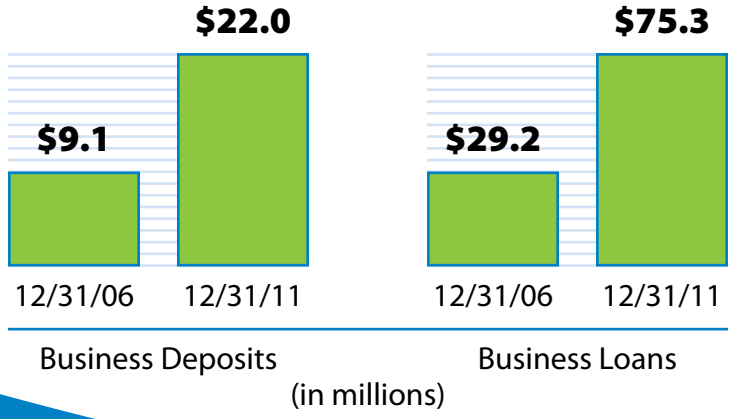
Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

Growing Local Businesses

Running your own business can be a challenge. The stakes are high, the hours are long, the responsibility is great, and satisfaction comes from successes large and small. Each business is different, with a story all its own. Centra helps make our members' business successes happen. You may need help with real estate or equipment expansion, savings and investments, or transaction processing. Centra's Business Banking team provides customized support, centered around your needs and building a relationship as your financial business partner. And to top it off – our loan decisions are made locally, so you get the answers you need from people you know.

Stop by any Centra branch, our Business Services Centers at 1430 National Road in Columbus or 2125 Veterans Parkway in Jeffersonville, visit online at Centra.org, or call us at 800-232-3642.

Not only have we helped our members' businesses grow over the years, but Centra's focus on each individual business has led to significant growth over the past five years.



Business owners can access a wide variety of services, such as:

Deposits
- Business Checking
- Money Market Savings
- Business Savings

Loans
- Commercial Real Estate
- Investment Real Estate
- Construction
- Equipment and Vehicle
- SBA Loans
- Lines of Credit
- Business Credit Cards

Convenience
- Professional Staff
- Online Banking
- Merchant Card Processing
- ACH/Payroll Deductions
- Telephone Banking

Through Centra Financial Services, Centra also provides investment and insurance services for business owners and their employees:

Insurance
- Life
- Long Term Care
- Disability
- Major Medical
- Medicare Supplement
- Auto
- Homeowners

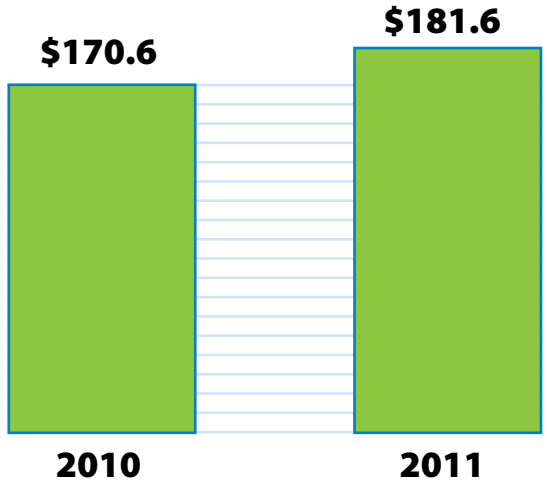
Investments
- Retirement Planning
- Brokerage Services
- Trust Services
- Mutual Funds
- Variable and Fixed Annuities
- 401(k) Plans
- Simplified Employee Pensions (SEPs)
- Tax Sheltered Annuities 403(b) Plans

Fulfilling Dreams of Home Sweet Home

You dream of the perfect home. Whether it has lived-in charm or brand new sparkle, your home is more than just a house. It's memories on the walls, flowers planted in the yard, meals shared in the kitchen. It's where your family laughs, loves and lives. Centra helps members fulfill those dreams of a lifetime with friendly service, great rates, plenty of choices, and expertise in walking you through the sometimes complex mortgage process. Centra can make it easier and help you every step of the way. And when rates come down, Centra helps members save their hard-earned money through refinancing.

Stop by any Centra branch, our Mortgage Center in Columbus, visit our online Mortgage Center at Centra.org, or call us at 800-232-3642.

2011 brought significant growth in first mortgages, with more than 507 new first mortgage loans closed and a total first mortgage portfolio of $181.6 million.



Mortgage Portfolio (in millions)

We provide members with:

- Free personalized quotes
- Free pre-approvals, so you can house-hunt with confidence
- Locally made decisions
- Online Mortgage Center to check rates and apply for your home loan
- 24-hour online access to loan status and information
- In-person Mortgage Center for personal service at its best
- Many mortgage options: fixed-rate, adjustable-rate, investment mortgages, unimproved ground loans, construction loans, fixed-rate cash out refinance loans
- Low/moderate income mortgage programs

Our Mortgage Center at 70 Carr Hill Road in Columbus continues to serve as an asset for Realtor and member relationships.

Investing and Planning for the Future

Looking ahead to the future can be exciting and intimidating all at the same time. You can't always be sure of what lies ahead for you or your family. But you can take steps to make sure you're as prepared as you can be for what life hands out and for making your life dreams come true.

Whether you're just getting started, you need to save for children to go to college, you're planning for retirement, or you're ready to enjoy some long-deserved relaxation in retirement, Centra Financial Services (CFS) is an experienced partner to help you take financial control of your future. CFS has experienced financial advisors who listen to our members' needs and help them make informed, smart choices.

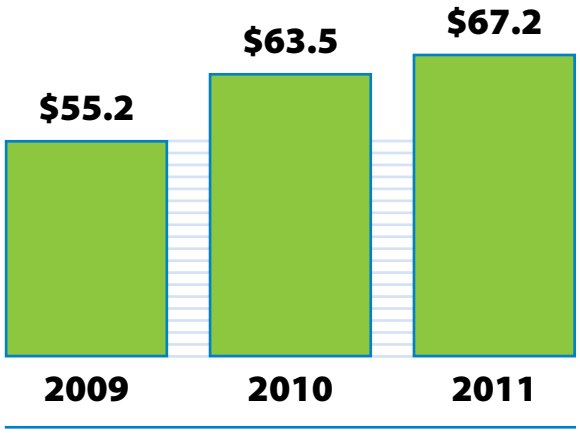
Stop by any Centra branch, our Centra Financial Service offices at 1430 National Road in Columbus or 700 Pillsbury Lane in New Albany, visit online at Centra.org/investment-insurance, or call us at 800-232-3642.

Representatives are registered, and securities are sold, and investment advisory services offered through CUNA Brokerage Services, Inc. (CBSI) member FINRA/SIPC, a registered broker/dealer and investment advisor, 2000 Heritage Way, Waverly, IA 50677, toll-free (866) 512-6109. Nondeposit investment and insurance products are not federally insured, involve risk, may lose value and are not obligations of or guaranteed by the financial institution. CBSI is under contract with the financial institution, through the financial services program, to make securities available to members.

Rob Fischvogt
CFS President/CEO

Centra Financial Services, LLC, is a wholly owned company of Centra Credit Union, offering:

- Financial management services
- Retirement planning
- Education planning
- IRAs
- Investment products such as stocks, bonds, mutual funds and annuities
- Auto and home insurance
- Health insurance
- Long-term care insurance
- Disability insurance



Assets Under Management
(in millions)

Locations

Columbus

National Road
1430 National Road
Columbus, IN 47201
(812) 376-9771
or (800) 232-3642

Union Street
601 Union Street
Columbus, IN 47201
(812) 372-8811
or (800) 451-8185

26th Street
2020 26th Street
Columbus, IN 47201
(812) 378-5962

St. Rd. 46 West
2165 Jonathan Moore Pike
Columbus, IN 47201
(812) 376-7661

Walesboro
2010 West 450 South
Columbus, IN 47201
(812) 342-4403

Edinburgh
1170 North US 31
Edinburgh, IN 46124
(812) 376-9979

Mortgage Center
70 Carr Hill Road
Columbus, IN 47201
(812) 314-0420

South-Central Indiana

Greensburg Plaza
1803 North Lincoln Street,
Suite A
Greensburg, IN 47240
(812) 662-9392

Greensburg
734 West Main Street
Greensburg, IN 47240
(812) 663-5807

North Vernon
975 North Veterans Drive
North Vernon, IN 47265
(812) 346-9596

Madison
303 Clifty Drive
Madison, IN 47250
(812) 273-8844

Seymour
520 South Jackson Park Drive
Seymour, IN 47274
(812) 523-3230

Shelbyville
2450 East State Road 44
Shelbyville, IN 46176
(317) 392-2100

Southern Indiana

Clarksville Walmart
1351 Veterans Parkway
Clarksville, IN 47129
(812) 284-4180

Jeffersonville
2125 Veterans Parkway
Jeffersonville, IN 47130
(812) 288-2450

New Albany
710 Pillsbury Lane
New Albany, IN 47150
(812) 944-1325

Sellersburg
7812 State Road 60
Sellersburg, IN 47172
(812) 280-2820

Scottsburg
281 North Gardner
Scottsburg, IN 47170
(812) 752-3377

Scottsburg Walmart
1618 West McClain
Scottsburg, IN 47170
(812) 752-7010

Indianapolis

Carmel
11711 North Pennsylvania, Suite #101
Carmel, IN 46032
(317) 843-5380
or (800) 421-4111

Shadeland
4562 North Shadeland Avenue
Indianapolis, IN 46226
(317) 541-1960

New York

Jamestown
4720 Baker Street
Lakewood, NY 14750
(716) 763-4405

North Carolina

Whitakers
9377 North U.S. 301
Whitakers, NC 27891
(252) 437-9214

Shared Branch and CO-OP ATM Locations

For a list of 4,000 nationwide shared branches and 28,000 FREE ATM locations, visit Centra.org.

Corporate Headquarters

Centra Credit Union
1430 National Road
P.O. Box 789
Columbus, IN 47202
(812) 376-9771
(800) 232-3642

2011 At A Glance

Renovated National Road and Union Street Lobbies.

Redesigned Centra Website.

Launched the New "Centered Around You" Brand Position.

Enhanced Online BillPayer with Same-Day Payment.

Began Account-to-Account Transfers.

Centered around you.

Introduced Visa Credit Card Alerts.

Won First Place Desjardins Financial Education Award

Sheila Dickman from Centra accepts the Desjardins Award from Ron Mazur, Indiana Credit Union League Awards Committee member.

2011 At A Glance

Enhanced Video Communication in Branch Lobbies.

Scholarship award winner Lauren Karmire from Triton Central High School in Shelbyville is presented her scholarship by Loretta Burd and James Johnson.

Presented Scholarships to 3 Deserving Students.

Introduced New Gift Card and Reloadable Card Program.

Launched Design Your Own Credit Card.

Initiated Online Instant Answers for Common Questions.

Tony Pottorff, a Columbus East High School social studies teacher, is presented the Financial Literacy Educator Award by Nan Morrow from Centra.

Established Financial Literacy Educator Awards.

Services

Federal Deposit Insurance: Your deposits are insured up to $250,000 by the National Credit Union Administration (NCUA).

Regular Savings Account: This savings account entitles access to all other Centra products and services. A minimum balance of $5.00 is required.

Personal Investment Options: Choose from Individual Retirement Accounts, Certificates, and Money Market Accounts. Additional planning programs are available through Centra Financial Services, an in-house brokerage agency offering investment products, as well as auto, homeowners and life insurance.

Health Savings Account: Combat the skyrocketing cost of health care insurance with a Centra Health Savings Account, allowing members to set aside pre-tax dollars to pay health care and pharmaceutical costs.

Checking Accounts: Centra offers Free Checking, With It Checking™, Money Market Checking and Advantage Checking with many free benefits.

Opportunity Accounts: This account is the perfect opportunity to get your financial record back on track, and you may qualify for any other checking or savings account option after one year. Everyone deserves a second chance.

Debit Card: Centra offers the MasterCard® Debit Card. Use the card at any location where MasterCard® is accepted..

Reward Points Debit Card: Centra's With It Checking account features a MasterCard® debit card with a points-based reward system where members earn points to spend on travel, merchandise and gift cards.

Business Services: Centra offers an array of business loans and deposit accounts to assist members with their business needs.

Easy Loan Application: Centra offers a variety of loan products, and we make it easy to apply. Visit Centra.org to apply for any consumer loan, credit card, or mortgage loan. You can even use your mobile device! You can also apply in person at any Centra location or by calling 800-LOANS-123.

Vehicle Loans: Centra offers loans on cars, trucks, motorcycles, RVs, boats and more. A variety of terms is available with low rates to fit your budget. You can ask for Centra financing at participating dealers when shopping for your next vehicle.

Mortgage Loans: Members may choose from a variety of mortgage programs to fund the purchase or construction of a home or to refinance an existing mortgage. Fixed and variable rate terms are available. Apply online at Centra.org, visit your local branch or the Mortgage Center, or call 800-232-3642, ext. 0420.

Home Equity Loans: Access the equity in your home via credit card or checks for debt consolidation, education expenses, home improvements or any personal project requiring extra funds. We provide both Home Equity Loans and Home Equity Lines of Credit.

Signature Loans: Assist members in meeting educational, travel and other expenses.

Share Secured Loans: Borrow against your Centra savings or certificate account, resulting in a very low interest rate loan.

Credit Cards: Centra offers a low-rate Visa Platinum credit card with CU Rewards points that can be redeemed for travel, merchandise and gift cards. Upload your personal photos and design your own credit card for a minimal fee.

Reloadable Cards: Prepaid, Student and Travel Visa® cards are now available.

Visa® Credit Card Alerts: Track spending, manage your account and be notified of fraudulent activity on your Centra Visa® credit card instantly.

Convenience

Loan Call Center: Save time when you apply for a loan over the phone by calling 800-LOANS-123 and speaking with a Centra Member Service Representative.

Member Contact Center: Speak with a Centra Member Service Representative during regular business hours if you have any questions about your account by calling your local branch or 800-232-3642, option 0.

CentraPhone: Conduct account transactions, check balances and transfer funds free of charge with a touch-tone phone 24 hours a day by calling 800-458-4771, then selecting option 2.

Drive-up Service: Many Centra locations offer convenient drive-up service. Check Centra.org or call 800-232-3642 for details.

Extended Hours: Many branches have extended hours. Centra's Scottsburg and Clarksville Walmart branches are open 7 days a week and are open until 8 p.m. weekdays. Our Edinburgh branch also operates 7 days a week and is open until 5 p.m. both weekend days.

Automated Teller Machines (ATMs): Centra operates 31 local ATM locations. Members also have access to 28,000 FREE ATM locations across the United States and Canada through our association with the CO-OP Network. Find them by clicking on ATMs at the top of our home page, Centra.org.

Shared Branches: Credit unions from all over the country share facilities to give members over 4,000 convenient locations to perform transactions. Whether you are at work, home, or your favorite travel destination, Centra is always nearby. Find them by clicking on Locations and Hours at the top of our home page, Centra.org.

CentraLink Online Banking: Our free, simple-to-use online banking system allows you to check balances, transfer funds, add overdraft protection, and more. Call your local branch or visit Centra.org to get more information or to sign up.

Online BillPayer: Pay your bills online with just a few clicks or set it up to pay them automatically. BillPayer is secure, easy-to-use and FREE when at least one bill is paid per month. Same-day payment is available for an additional fee.

ZashPay™: Make person-to-person payments safely and securely through Online BillPayer. The money goes directly from your checking account into the payee's account usually within one business day, regardless of where they bank.

Website: Centra.org is the one site where members can log on to CentraLink for online banking, to check rates, find an ATM, apply for a loan, check out special promotions, or gain valuable financial resource information.

Online Mortgage Center: Visit Centra.org and select Home Loans under the Personal tab. Here you can apply, get a personalized rate quote or use a variety of financial resources.

IRA Center: Visit Centra.org and select Certificates & IRAs under the Personal tab. Learn all about IRAs, open a new account, transfer money between existing accounts or make a withdrawal.

Online Switch Kit: We make it easy to switch your accounts to Centra with this simple to use online form.

Online Car Center: The one spot you can research cars, compare different makes and models, read expert reviews and receive personalized reports and discounts on the cars you want. Select Auto Center under the Resources tab at Centra.org. Powered by CarQuotes.com.

E-Checks: Click on eDocuments in CentraLink to view checks online exactly as you wrote them. Download and print images of cleared checks at your convenience.

E-Statements: Sign up under Preferences in CentraLink to receive monthly statements via email.

E-Lerts: Receive account activity email notifications. Sign up in CentraLink under the email Services option in Preferences.

Online Check Ordering: Save time by ordering your checks online at your own convenience.

Payroll Deduction/Direct Deposit/Net Check: Save time with these electronic services that deliver deposits to Centra automatically, safely and on time.

Money Orders: Money orders may be purchased at a nominal price at all branch locations.

Travelers Cheques: Purchase travelers checks at any branch location.

Gift Cards: Sold at all branches, our gift cards are perfect for any occasion.

Notes